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16 August 1965

MEMORANDUM FOR: Mr. George Carver, Vietnam Affairs Staff

THROUGH: Director of Research and Reports
Chief, Economic Research Area
Acting Chief, International Division

SUBJECT: Viet Cong Subversive Economic Activities
(S-1596)

Per your request, the attached report is a revised [redacted]

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[redacted] paper on Viet Cong economic activities.

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[redacted]

Chief, Asia Branch

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ONR/I A: [redacted] (16 August 1965)

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GROUP 1
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~~SECRET~~Viet Cong Subversive Economic ActivitiesSummary and Conclusions

Viet Cong (VC) economic operations are a highly organized and effective means of funding the Communist revolution and subverting the South Vietnamese economy. The VC economic organization, operating overtly or clandestinely in almost all areas of South Vietnam, finances and supplies the party's political and military elements. Conventional techniques of economic control are openly employed by the VC in areas that they control; unconventional means, including bribery and clandestine front operations, are used as required. The VC, utilizing these methods, now exercise almost complete control over several commodities essential to the South Vietnamese economy, have extensive control over many other commodities, conduct external trade and internal transport operations, and acquire or trade goods essential to their revolution. VC economic activities have had an extensive impact on the South Vietnamese economy and increasingly tax the ability of the GVN to maintain economic stability.

While a great deal is known about the more open economic activities of the VC, there exists a critical need for economic intelligence on clandestine VC economic operations, the extent and effectiveness of GVN economic controls, and the possible

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impact of economic counter-measures. At present, there is insufficient evidence to determine the degree to which the VC use or prefer particular methods or to assess the effectiveness of present or possible GVN control measures. Additional information, collection, and comprehensive analysis on these problems are required of US and GVN agencies.

Second, the variety of available VC economic techniques argues against any single or piecemeal approach to counter VC economic activities. In most cases, a combined intelligence, military, and economic control program is required. For example, a concerted program of import controls, distribution and prescription controls, and border surveillance is probably necessary to have a significant effect on VC access to medical supplies -- a critical VC need.

Finally, the GVN must be the principal enforcement mechanism of economic controls or military countermeasures. In most cases, the active participation of related GVN agencies is essential for the implementation of corrective economic programs. In many cases, the strengthening of the GVN's ability to control its own resources and those of its aiding allies would be politically desirable and counteract the impact of VC economic activities against the GVN.

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I. Viet Cong Economic Organization and Strategy

The basic economic organization of the Viet Cong is the Finance and Economic element of the People's Revolutionary Party of South Vietnam. The Finance and Economic Sub-committees (or Sections) exist on almost all levels of the party hierarchy, from village to COSVN, and are the economic counterparts of the trained political cadre and VC military units. The Finance and Economic element is a horizontal extension of the party at the various geographical levels, but it also constitutes a quasi-independent vertical organization for economic supervision and operation.

The Finance and Economic elements are responsible for the acquisition of money and goods required by the VC, the supervision of the economy of VC-controlled areas, and the implementation of economic programs to strengthen VC economic power and to disrupt the RVN economy. To meet supply requirements in liaison with the Rear Services Section of VC military units, the Finance and Economic elements create and supervise sub-elements designed to collect taxes in cash and in kind, store and purchase goods, and transport goods as required. To supervise the economy of VC-controlled areas, the Finance and Economic elements direct NLFV economic organizations that are designed to provide rural credit, develop and improve agricultural

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production, and create the facade of an independently operating governmental organization. To strengthen VC economic power and to undermine the GVN economy, the Finance and Economic elements control the circulation of goods by imposing taxation and by creating trade cooperatives to monopolize trade. In their disruptive economic activities, the Finance and Economic sections often work with military units and clandestine cell operations.

VC economic strategy closely parallels their political and military strategy -- to consolidate a safe base area, to spread out clandestinely into GVN areas, and to take advantage of weaknesses on the part of the GVN. This strategy is implemented selectively in various geographical areas and apparently in relation to VC political and military capabilities and intentions. Where open collection of taxes and trade operations are possible, the VC use these methods. Where clandestine methods are required because of existing GVN control, clandestine fund drives, legitimate front operations, and existing enterprises are utilized. In other cases, the VC will utilize the resources of the GVN economy covertly through corruption and bribery or overtly by discreet purchase and transportation.

II. Dimensions and Techniques of VC Economic Control

Some form of VC economic control now extends over vast areas of production and a wide range of commercial transactions. The VC have established a strong economic base in their almost complete control of charcoal, lumber, salt, and manioc production.

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The VC exercise predominant influence over extensive areas of rice cultivation, rubber and tea production, the fishing industry, and other agricultural production. The VC enjoy a controlling influence on internal transportation and have organized their own foreign trade and internal transport operations. VC clandestine economic activities extend into Saigon and probably externally into Hong Kong, Cambodia, Laos, and France. Existing businesses are utilized through corruption and bribery of businessmen and government officials.

The overt techniques of VC economic control are fairly common means for a government to extract resources from its people and to control the circulation of goods. Taxation, control of money and credit, and restrictions on trade and commerce are the most common.

The VC have instituted a fairly comprehensive and successful tax system to control the production, acquisition, and distribution of commodities. Agricultural taxation in kind, especially on rice, has been the primary implement for insuring VC access to food. Taxes on agriculture range from 6 to 50 percent depending on the wealth of the area and VC needs. Particularly in the southern delta region where the VC control large areas of rice cultivation, systematic tax schedules, averaging about 15 percent of rice production, have been applied and collection has resulted in a

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significant drop in deliveries to urban areas. A similar schedule of taxation is applied to other agricultural production, fishing, and businesses --- especially in VC areas but also, to some extent, in GVN controlled areas as a cash and kind revenue source.

Plantation taxes, especially cash taxes on rubber plantation, are an important source of revenue some of which may be collected in Pnom Penh or Paris. Cash taxes on plantations are, however, low in comparison to the VC tax assessment on the Vietnamese peasantry, and services and taxation in kind probably account for the larger share of plantation taxes. Most of the plantations have airstrips and medical facilities and carry large stocks of rice, petroleum products, and other supplies, including manpower, that are extremely valuable to the VC.

VC monetary and credit control has been initiated, and an extension of these activities will probably depend on the results of these initial efforts. The distribution of North Vietnamese currency and the sale of so-called Liberation Bonds have been carried out in VC areas probably to augment VC control over resources in their areas, to acquire additional quantities of GVN currency, and to reinforce psychologically the extent of VC power. Similar steps have been taken in the credit field through the establishment of rural credit cooperatives and the application of a heavy tax on the practice of usury.

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VC restrictions on commerce and transportation provide a significant source of revenue, provide additional advantages by controlling both external and internal trade, and assure the VC of an appropriate distribution of required goods. Transportation taxes, in cash or in kind are probably assessed against the majority of internal commodity trade and personal travel.

Internal trade has been controlled by the establishment of state trading cooperatives and by the imposition of import and export duties. State trading cooperatives, organized at the province level, are in operation and are designed to purchase commodities, to monopolize trade in VC areas, and to conduct trade between VC and GVN areas. Import and export taxation has been imposed to promote a distribution of goods favorable to the VC areas. The extent of VC foreign trade operations are not known, but a direct barter trade has been organized with Cambodia. The opium trade with Laos also appears to be operated by the VC.

The more or less overt techniques of VC economic control have been supplemented by an apparently wide array of clandestine techniques. Although the real magnitude of VC use of clandestine methods cannot be determined at this time, the VC are strongly suspected of conducting legitimate front operations in Saigon, operating in the dollar black market in Saigon, and participating in illegal enterprises such as opium and counterfeiting. The VC are also known to be conducting clandestine fund drives in GVN areas.

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III. Implications for the GVN Economy

The implications of VC subversive and clandestine economic activities are manifold. The wider and more formalized controls that the Viet Cong currently exercise are having an increasingly adverse impact on the GVN economy and beginning to have political and psychological derivatives advantageous to the Viet Cong. Government revenues and foreign exchange earnings have already been reduced, and price stability is being seriously jeopardized. If the Viet Cong continue to extend their economic control, it will become exceedingly difficult and yet increasingly necessary for the GVN to initiate economic control measures. The absence of GVN and US countermeasures to disrupt VC economic activities, to cushion the impact of their activities, and to establish clear alternatives to present sources of supply and distribution will have increasingly serious implications for the US aid program and our present counter-insurgency efforts.

VC taxation and economic control has caused increasing problems in maintaining a continuing supply of commodities to GVN territory at reasonably stable prices. The price of charcoal has increased by 50 percent since 1962 as the VC extended their dominance over this commodity. The interdiction of Route 20 from Hanoi had similar implications for fresh fruits and vegetables in June of this year, and salt rationing has been instituted in

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Saigon for similar reasons. Price and supply problems exist in many provincial capitals. The most critical impact has been on rice, and it appears likely that this situation will worsen in the absence of additional controls.

The implications for GVN revenues and foreign exchange earnings have already been serious. Previously an exporter of rice, Vietnam must now import significant quantities -- a net foreign exchange loss of about \$40 million compared to 1963. Rubber exports probably could be interdicted by the VC, but at the present time this does not appear to be to their advantage. GVN collection of land and income taxes has fallen to some extent because of increased rural insecurity. As the scarcity of local goods is aggravated by the VC and the requirements for imports increase, the GVN will almost certainly be faced with increasing foreign exchange pressure and capital flight.

The absence of controls on a wide variety of goods and the negligence of the GVN in permitting trade with VC-controlled areas has a variety of implications for the prospective economic situation. As GVN areas grow increasingly dependent on resources outside of its control, the opportunity for deliberate VC economic pressure grows. The VC, on the other hand, have followed a policy of regulating their internal trade, developing external sources,

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and also piling critical needs that as as them increasingly able to cushion the shock of an economic denial program.

The psychological and political advantages gained by the VC through their economic operations are already significant. The VC have attempted to gain rural acceptance of their control by promoting development and instituting financial controls. By involving businessmen and government officials either wittingly or unwittingly in their economic activities, they make it increasingly difficult for the GVN to impose and enforce controls and compromise these individuals in their political and economic roles. Finally, by asserting their own economic power, the VC can threaten the economic and political stability of the GVN.

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